Analysis of Starbucks China's Financial Difficulties and Response Strategies: From the Perspective of Market Competition and Localization

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Abstract. Since entering the Chinese market in 1999, Starbucks has expanded rapidly, relying on its high-end brand image and the "Third Place" model. However, in recent years, fierce competition from local brands and the trend of consumption downgrading have put pressure on its financial performance. In the second quarter of 2025, Starbucks China recorded zero growth in same-store sales, a decline in average transaction value, and a significant shrinkage in market share, exposing the "volume growth with price decline" dilemma it faces. This paper analyzes the challenges Starbucks encounters in the Chinese market and explores its response strategies, focusing on adapting to market changes through localization innovation, digital transformation, and supply chain localization. Using the AMPS model, combined with Starbucks' financial reports and operational data, this paper examines strategies such as optimizing the membership system, cultural empowerment, and flexible operations. The study shows that Starbucks needs to strike a balance between the high-end market and the sinking market, and enhance its competitiveness through digital and localization strategies to cope with intense market competition and achieve sustainable development.

Keywords: Starbucks; financial difficulties; market competition; localization strategy.

1. Introduction

Since entering the Chinese market in 1999, Starbucks has expanded rapidly by virtue of its high-end brand image and the "Third Place" experience model. As of March 2025, it has opened 7,758 direct-operated stores, accounting for 19% of the total number of Starbucks stores worldwide, making China its second-largest market globally [1]. However, in recent years, with the increasingly fierce competition in the domestic market and the emergence of consumption downgrading among Chinese consumers, Starbucks' financial situation has gradually come under pressure. In the second quarter of 2025, its same-store sales in China grew by zero, the average transaction value (ATV) per customer decreased, and its market share shrank significantly. This was directly caused by intense competition with local brands such as Luckin Coffee, indicating the major contradiction of "volume growth but price decline" that Starbucks faces amid the rapid expansion of stores, and exposing the structural problem of "volume growth with price decline" which requires a systematic solution.

With the deepening of globalization, multinational companies are facing greater difficulties in surviving and developing in China. As local brands rise strongly, how multinational companies can implement localization strategies and maintain competitiveness has become an urgent issue to explore. As an internationally renowned brand, the trouble encountered by Starbucks has extensive learning value—it not only relates to its own development but also provides key response plans for other multinational brands. From Starbucks' predicament, it can perceive the in-depth contradictions of global brands in the process of localization and how to address these challenges through innovation and transformation.

This study is of great significance. By exploring the difficulties faced by Starbucks in the Chinese market, it can identify the main problems and challenges it encounters, thereby providing a theoretical basis for companies from other countries to cope with competition in the Chinese market. Especially when price competition intensifies and supply chain cost pressure continues to rise, balancing high-end positioning and localization innovation is a problem that many multinational enterprises need to solve. Furthermore, this study will discuss how multinational brands can achieve long-term development in a price-sensitive market through digital transformation and localization methods, providing insights for future cross-border operations.

The purpose of this study is to analyze the financial difficulties encountered by Starbucks in the Chinese market, thereby exploring its response strategies under the "volume growth with price decline" dilemma. It focuses on examining Starbucks' strategic adjustments in the face of fierce competition, especially in terms of product innovation, digital transformation, and localization reforms. It also analyzes the future development trend of Starbucks and explores how it can balance high-end market positioning and expansion in the sinking market, so as to provide theoretical support and operational guidance for the localization strategies of multinational companies in complex market environments.

This study adopts the AMPS model. After putting forward research questions, it explores how Starbucks responds to competition and what insights it can provide for other international brands. Then, based on the study of Starbucks' official website, annual reports, and other relevant materials, it understands Starbucks' operations in China and conducts quantitative analysis. Finally, combining data analysis and brand cases, it proposes practical market response measures to provide references and insights for the operation of multinational brands in the Chinese market.

2. Overview of Starbucks China's Development

2.1. Coexistence of Market Expansion and Financial Difficulties

Currently, China is Starbucks' second-largest market globally, with a 100% company-operated model, contributing significantly to the revenue and profits of its international business [2].

Table 1. Number and proportion of company-operated stores and licensed stores globally and by region.

Store Type	North America	Percentage of Total Stores in North America	International Regions	Percentage of Total Stores in International Regions	Global Total	Percentage of Global Total Stores
Company-operated stores	11,161	61%	9,857	45%	21,018	52%
Licensed stores	7,263	39%	11,918	55%	19,181	48%
Total	18,424	100%	21,775	100%	40,199	100%

As shown in Table 1, Starbucks' global stores are divided into two types: company-operated stores and licensed stores. In North America, company-operated stores account for 61% of the total stores, while licensed stores account for 39%. In international regions, company-operated stores account for 45% and licensed stores account for 55%. Globally, company-operated stores account for 52% and licensed stores account for 48%.

From the data, the proportion of company-operated stores in North America is significantly higher than that in other regions, which indicates that the North American market is easier for Starbucks to control. Starbucks prefers to operate company-operated stores directly to maintain brand consistency. However, in international markets, especially the Chinese market, Starbucks adopts the licensed model more frequently. This business model allows Starbucks to be more flexible in terms of rapid development, reducing operational risks and early operational investment, thereby accelerating its expansion speed.

Table 2. Company-operated store data for the fiscal year ended september 29, 2024.

Region/Market	Stores Open as of Oct 1, 2023	Opened	Closed	Transfers	Net Change	Stores Open as of Sep 29, 2024
North America:						
U.S.	9,645	611	96	2	513	10,158
Canada	977	37	17	-	20	997
Siren Retail	6	-	-	-	-	6
Total North America	10,628	648	113	2	533	11,161
International:						
China	6,804	855	65	-	790	7,594
Japan	1,733	90	14	-	76	1,809
U.K.	355	32	9	-	23	378
All Other	67	4	-	-	4	71
Siren Retail	5	-	-	-	-	5
Total International	8,964	981	88	-	893	9,857
Total Company-Operated	19,592	1,629	201	2	1,426	21,018

Globally, the number of company-operated stores and licensed stores accounts for a similar proportion of the total number of stores (52% and 48% respectively), which shows that Starbucks' expansion model in the global market is no single—it uses directly controlled stores to ensure brand quality and expands brand influence and reduces costs through licensing.

In general, the data in Table 1 reflects Starbucks' selection and adjustment of store operation models in global and regional markets. This flexible strategy helps the company expand rapidly in various regional markets and allows it to allocate resources and control risks according to the characteristics and needs of different regional markets.

In fiscal year 2024, Starbucks China added 790 new company-operated stores. As of September 29, 2024, the total number of company-operated stores in China reached 7,594, making it the single-country market with the largest store scale in Starbucks' international markets [3].

As shown in Table 2, for the fiscal year ended September 29, 2024, Starbucks' company-operated stores worldwide showed a clear expansion trend. The number of company-operated stores in North America increased from 10,628 as of October 1, 2023, to 11,161, with a net increase of 533. Especially in the U.S. market, Starbucks opened 611 new stores; although 96 stores were closed, the total number of stores still increased by 513. The Canadian market also saw growth, with 37 new stores opened and 17 closed, resulting in a net increase of 20 stores.

In international markets, Starbucks also achieved expansion. The Chinese market was the driving force behind international expansion: the number of stores increased from 6,804 as of October 1, 2023, to 7,594 as of September 29, 2024, with a net increase of 790. The competitive pressure from local brands such as Luckin Coffee did not hinder Starbucks' expansion; instead, it demonstrated its strong adaptability and growth momentum in the Chinese market. The Japanese market added 76 new stores, the UK market added 23 new stores, and other countries and regions opened 4 new stores.

Overall, the total number of company-operated stores worldwide increased from 19,592 to 21,018, with a net increase of 1,426. This indicates that Starbucks' global expansion momentum remains strong. Especially in overseas markets, despite increasing competitive pressure, it can still maintain stable growth.

From the above data, it can see that the expansion speed in the North American market has begun to slow down, but in overseas markets such as China, especially in the Asian market, Starbucks is still expanding on a large scale. This helps Starbucks maintain a relatively high market share and number of stores while expanding globally.

As Starbucks' second-largest global market, Starbucks China achieved a net increase of 790 stores in fiscal year 2024 (reaching a total of 7,594 stores), but its financial performance was significantly under pressure.

Financial reports for the second quarter of 2025 show that Starbucks China's same-store sales decreased by 8% year-on-year, the average transaction value shrank by 5 yuan, and its market share plummeted from a peak of 60% to 14%. In sharp contrast, Luckin Coffee successfully challenged Starbucks' leading position in the Chinese market with a 35% market share and a 41.2% quarterly revenue growth rate. Behind this reversal lies the cruelest survival rule in the Chinese coffee market.

3. Starbucks' Response Strategies

3.1. Digital Transformation and Membership System

Starbucks has focused its response strategies on using digitalization to improve operational efficiency. During this period, Starbucks collaborated with Microsoft Azure OpenAI to introduce the "Green Point Assistant" system into its operations. This system is used to optimize work order sequencing and equipment scheduling, which has significantly improved operational efficiency: the order processing time has been reduced by 26% (from 6 minutes to 4.7 minutes), and the order backlog rate has decreased by 32% [4]. This not only improves operational efficiency but also reduces resource waste in the operation process, providing strong support for Starbucks in an increasingly competitive market environment.

Regarding the membership system, Starbucks has continuously upgraded and strengthened its "Starbucks Rewards Club" system, which has increased user stickiness. On the "Starbucks Mobile App", users can place orders and make payments on their mobile phones and earn "Stars" through the points system to redeem rewards—these points can be used to exchange for free products. This practice is widely used in the Chinese market, increasing user activity while enhancing their loyalty. On this basis, Starbucks has also collaborated with brands such as China Eastern Airlines and Hilton through the "Starbucks Social Circle" ecosystem to convert membership points into benefits in different scenarios, including airline miles or hotel points. Diamond-level members can earn 1.5 times more Stars when spending 50 yuan, which effectively encourages users to increase their consumption frequency and spending amount [5]. Starbucks' marketing model integrates multiple functions such as Global Positioning System (GPS) positioning, social interaction, and even product search. This model not only promotes its own brand but also provides an effective digital information dissemination model for other enterprises [6].

Table 3. Core indicators of Starbucks China's membership system.

Indicator	2025 Q2	Year-on-Year Change	Strategic Significance
90-day Active Members	22 million	+1 million	Members contribute 75% of sales
Member Consumption Frequency	4.2 times/month	+0.3 times	Lock in high-frequency customer groups
Star Redemption Rate	68%	+12%	Enhance user stickiness

According to the data in Table 3, Starbucks' membership system showed significant growth in the second quarter of 2025, demonstrating the importance of the membership system in improving user stickiness and boosting sales. First, the number of 90-day active members reached 22 million, an increase of 1 million compared to the same period last year, indicating that Starbucks' member base is steadily expanding. Active members account for as high as 75% of sales as follows, which shows that the membership system is of vital significance to the company's revenue.

Member consumption frequency also increased: in the second quarter of 2025, the average monthly consumption frequency of members reached 4.2 times, a year-on-year increase of 0.3 times. This indicates that Starbucks has firmly retained high-frequency consumers, which has increased the brand loyalty of its users and its market share. During frequent consumption, Starbucks can have deeper interactions with existing customers, thereby increasing the average transaction value and total sales volume.

The Star redemption rate also increased significantly, reaching 68%, a year-on-year increase of 12%. This data reflects that members participate in Starbucks' activities through point redemption, thereby increasing their usage frequency and loyalty. By virtue of this mechanism, Starbucks not only improves the user experience but also deepens the emotional interaction between members and the brand through the reward system.

It can be seen from Table 3 that Starbucks' membership management and marketing activities are successful. On the basis of optimizing the membership system, it has increased user activity, thereby improved brand loyalty and sales volume, and further enhanced Starbucks' competitiveness in the market.

3.2. Localized Products and High-End Route

To ensure the future supply of high-quality green coffee beans and consolidate its leading position in the coffee industry, Starbucks operates 10 Farmer Support Centers, including one in Yunnan Province, China—a fast-growing market. These Farmer Support Centers are staffed with agronomists and sustainability experts who work with coffee-growing communities to promote best practices in coffee production. The aim is to improve coffee quality and yield while providing agronomic support to address climate change and other impacts [7]. In addition to coffee, Starbucks also produces large quantities of dairy products (especially liquid milk) and small amounts of plant-based non-dairy alternatives (such as oat milk and almond milk) to meet the needs of its company-operated stores. Based on long-term cooperative relationships with dairy products and plant-based non-dairy alternative suppliers and their past performance, Starbucks believes that the risk of insufficient supply of liquid milk and plant-based non-dairy alternatives to support store operations is generally low [8].

3.3. Optimizing Supply Chain and Store Layout

At the supply chain level, Starbucks is accelerating its localization efforts. The procurement ratio of coffee beans from Yunnan has increased from 65% to 82%, which not only shortens the raw material transportation radius but also reduces intermediate costs through the direct procurement model from production areas [9]. The commissioning of the Kunshan Roasting Innovation Industrial Park has become a key link: this 1.5-billion-yuan base adopts green roasting technology, and the annual carbon emissions reduction is equivalent to the carbon sequestration capacity of 800,000 coffee trees—this data was verified by on-site measurements at the China International Supply Chain Expo (CISCE) last year. The logistics network has also extended to county-level markets simultaneously: the Yangtze River Delta region has taken the lead in achieving 100% coverage, and the national coverage rate of county-level markets has also reached 40%, providing infrastructure support for the sinking strategy.

At the same time, as a consumer service enterprise, Starbucks' rental capacity is relatively weaker than that of catering and other formats, and land costs have a certain impact on its spatial layout. Currently, Starbucks' store layout shows a two-track adjustment of "streamlining in first-tier cities and penetrating county-level markets". Faced with the pressure of an 18% decline in the sales per square meter (SPM) of some stores in core cities such as Shanghai and Beijing, Starbucks has transformed more than 120 low-efficiency stores into "satellite stores": the business area has been reduced by half, the number of employees has been cut by 40%, and the focus has shifted to takeaway and self-pickup services. Starbucks stores in Shanghai are mainly located in the central urban area, seizing busy commercial areas and concentrating relatively in major business districts; at the same time, they are keen to "partner with good neighbors" [10]. Meanwhile, the development of county-level markets adopts a more flexible light-asset model: on the one hand, 5,000 "Naxiaoka" self-service coffee machines have been deployed. These machines sell an average of 120 cups per day, which is only 12% of that of traditional stores, but the investment cost can be recovered in 8 months. On the other hand, it cooperates with commercial complexes in third- and fourth-tier cities to open joint stores. Local owners bear the main investment, and Starbucks participates in profit sharing through brand authorization plus a 30% shareholding. This model has accounted for 38% of the new stores opened in 2025.

These initiatives form an organic synergy: supply chain localization has reduced the cost per cup by 12%, and the released profit margin is used to support digital upgrading; the funds saved by the light-asset model in county-level markets are used to feed back the experience innovation of high-end cultural and tourism stores. When Yunnan coffee beans are brewed into the 88-yuan "Silk Road Set" in Dunhuang stores, a value chain from the field to the scenic spot has been fully connected [10].

4. Conclusion

The dilemma faced by Starbucks China is essentially a "symptom of the era" of "volume growth with price decline". In recent years, although Starbucks has continuously expanded the number of stores in an attempt to occupy a larger share in the Chinese market, the continuous decline in same-store sales and average transaction value shows that store expansion has not been effectively converted into profit growth. With the rapid rise of local brands such as Luckin Coffee through low prices and innovative methods, the "Third Place" premium model that Starbucks previously relied on is losing its advantage. Luckin's price war not only threatens Starbucks' market share but also forces it to re-examine its positioning and competitive strategy in the Chinese market. When facing fierce market competition, Starbucks is in a difficult situation, but it continues to explore new paths in the Chinese market by strengthening cultural empowerment, flexibly adopting the light-asset model, and promoting supply chain localization. In particular, by integrating local culture for product renewal—such as the launch of coffee cups with "Yunjin patterns" in Nanjing stores—it has not only improved Starbucks' localized image in the Chinese market but also demonstrated that brand premium still exists and can play a role in certain niche markets. This cultural empowerment strategy has enabled Starbucks to maintain a certain proportion of market share in the local market, thereby providing strong support for it to cope with fierce competition.

Looking forward to the future, Starbucks will continue to face the dual tests of rising local brands and changing consumer demands. To cope with increasingly fierce market competition, Starbucks must first continue to promote its localization strategy, especially in terms of product renewal, service models, and brand image building. The high-end market remains one of Starbucks' core competitive advantages, but how to maintain its high-end positioning while avoiding over-reliance on price premiums will be a decisive factor for Starbucks' success in the future. In general, Starbucks' future path to break through the dilemma depends on how to balance the consistency of its global brand and localized improvements in the ever-changing market environment. In the next three years, Starbucks needs to respond more flexibly to competitive pressures in the Chinese market, rely on localization strategies, digital transformation, and refined market strategies, and maintain its advantages and market share when facing challenges from local brands and market changes.

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